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CIEP-01 LAB-04 SIL-01 OMB-01 DODE-00 PM-03 H-02 L-02

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USMISSION GENEVA

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E.O. 11652: XGDS-1

TAGS: UNGA, EGEN

SUBJ: UK IDEAS ON COMMODITIES FOR COMMONWEALTH CONFERENCE

REF: (A) LONDON 5454, (B) LONDON 5370

1. REF (A) CONTAINED THE TEXTS OF TWO DOCUMENTS GIVEN US BY MAITLAND OF FCO APRIL 10, WHICH HE SAID WOULD FORM BASIS OF UK POSITION ON COMMODITY POLICY AT FORTH-COMING COMMONWEALTH CONFERENCE. THIS CABLE PROVIDES DETAILS GIVEN US BY MAITLAND OF HMG THINKING.

2. MAITLAND EMPHASIZED FOLLOWING POINTS IN PARTICULAR:
(A) INITIATIVE IS NEEDED TO COUNTER DEMANDS OF RADICAL LDCS WHICH ARE CREATING INCREASINGLY CONFRONTATIONAL SITUATION, AND ENCOURAGE MODERATES.
(B) KINGSTON IS SEEN AS STARTING POINT FOR GETTING SOME AGREEMENT ON GENERALITIES. DETAILS MUST BE WORKED OUT IN OTHER FORA.
(C) POSITION OUTLINED TO EMBASSY AND TO BE OUTLINED

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LATER TO DEPARTMENT DIRECTLY IS MAXIMUM STATEMENT OF

UK AIMS. IN TACTICAL SITUATION, UK MAY HOLD BACK SOME IDEAS AND WILL REVEAL AS MUCH OR AS LITTLE AS KINGSTON SETTING DICTATES. MOREOVER, KINGSTON TACTICS MIGHT INVOLVE NEGOTIATING POSITION NOT SHOWN HERE.

(D) BOTH THE PRIME MINISTER AND CALLAGHAN ASSIGN TOP PRIORITY TO FRANK EXCHANGE WITH US. UK HOPES US WILL BE ABLE TO SUPPORT MUCH OF POSITION, BUT REALIZES ADAPTATION TO MEET POSSIBLE US OBJECTIONS MIGHT BE NECESSARY.

(E) STRICT CONFIDENTIALITY WAS EMPHASIZED.

3. MAITLAND BRIEFLY REVIEWED EVENTS LEADING UP TO UK DECISION TO UNDERTAKE AN INTENSIVE, INTER-AGENCY REVIEW OF COMMODITY POLICY, INCLUDING WILSON'S TALK WITH PRIME MINISTER TRUDEAU IN LATE JANUARY, HIS SUBSEQUENT DISCUSSION WITH THE PRESIDENT AND SECRETARY KISSINGER, AND FINALLY, THE PRIME MINISTER'S SPEECH AT LEEDS ON FEBRUARY 9 ON THE COMMODITIES PROBLEM. THE INTER-AGENCY REVIEW WAS COMPLETED SHORTLY BEFORE EASTER BUT CABINET APPROVED ONLY THIS WEEK.

4. STUDY BREAKS DOWN INTO THREE MAJOR SECTIONS, "POINT OF DEPARTURE," "SCOPE FOR COOPERATION," AND "CONCLUSIONS," AS FOLLOWS:

(A) POINT OF DEPARTURE. (I) THERE IS INCREASING AWARENESS OF THE ECONOMIC INTERDEPENDENCE BETWEEN DEVELOPING AND DEVELOPED WORLD, WHICH FOCUSES PARTICULARLY ON TRADE IN COMMODITIES. THIS IS ILLUSTRATED BY HEIGHTENED SENSITIVITY TO QUESTION OF ACCESS TO MARKET BY PRODUCERS AND DESIRE FOR GUARANTEED SUPPLIES BY CONSUMERS. (II) VOLATILITY OF PRICE/SUPPLY SITUATION IN COMMODITY TRADE IS DETRIMENTAL TO BOTH PRODUCERS AND CONSUMERS. PRICE VOLATILITY AFFECTS INVESTMENT AND EVENTUALLY SUPPLY. PRICE VOLATILITY PARTICULARLY SERIOUS FOR COUNTRIES WITH SINGLE EXPORT COMMODITY AND TO LDC'S WITHOUT RESOURCES. A PARTICULAR RESPONSIBILITY EXISTS TOWARD SUCH NATIONS. (III) ATMOSPHERE FOR DISCUSSION HAS BEEN SOURED BY CONFRONTATION, DELIBERATELY PROMOTED BY MORE EXTREME ELEMENTS IN GROUP OF 77. CLIMATE OF IRRATIONALITY IS HARMFUL AND SPILLS OVER INTO POLITICAL SPHERE. END

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RESULT COULD BE SERIOUS FRUSTRATION, THREAT TO RAW MATERIAL SUPPLIES, TO FUTURE INVESTMENT, TO PRESENT FOREIGN INVESTMENT HOLDINGS, AND TO ECONOMIC POSITION OF LDCS.

(B) SCOPE FOR COOPERATION. CONSIDERABLE MOVEMENT IN THIS AREA IS ALREADY UNDER WAY, E.G., IN GATT, THE US INITIATIVE ON FOOD SECURITY, AND IN ENERGY. CONCENTRATION ON COMMODITY TRADE WOULD SEEM TO OFFER GOOD

PROSPECTS FOR FURTHER WORK. MAITLAND POINTED OUT IT WAS IN THIS CONTEXT THAT THE "GENERAL COMMITMENTS" AND "SPECIFIC PROPOSALS" REPORTED REF (A) SHOULD BE READ, E.G., RECOGNITION OF INTERDEPENDENCE, MARKET ACCESS, ASSURED SUPPLY, AND EXPORT EARNINGS STABILIZATION. HE NOTED THAT KINGSTON IS WELL SUITED TO AN INITIATIVE ON COMMODITIES SINCE THE COMMONWEALTH

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COUNTRIES DUPLICATE RANGE OF ECONOMIC INTERESTS OF THE WORLD AS A WHOLE, WITHOUT THE PRESENCE OF THE MORE EXTREME ELEMENTS OF THE GROUP OF 77. IT SHOULD THEREFORE OFFER AN EXCELLENT FORUM FROM WHICH SUPPORT MIGHT BE GENERATED FOR MODERATE PROPOSALS TO BE DEVELOPED IN DETAIL ELSEWHERE.

(C) CONCLUSIONS. STUDY CONCLUDED BY EXAMINING THREE MAJOR MECHANISMS, COMMODITY AGREEMENTS, INDEXATION AND EARNINGS STABILIZATION, AS FOLLOWS: (I) COMMODITY AGREEMENTS. HISTORICALLY THESE HAVE BEEN ONLY MARGINALLY SUCCESSFUL IN KEEPING PRICE FLUCTUATIONS UNDER CONTROL.

THEY ARE SUI GENERIS AND MUST BE CONSIDERED ON COMMODITY-BY-COMMODITY BASIS. UNCTAD LIST OF 18 COMMODITIES IS AS GOOD A STARTING POINT AS ANY FOR IDENTIFICATION OF SUITABLE COMMODITIES. TRADITIONAL MECHANISMS MUST BE RE-EXAMINED (E.G., BUFFER STOCKS ARE VERY COSTLY RELATIVE TO EFFECTIVENESS). IN ANY CASE, WHILE USE OF AGREEMENTS SHOULD NOT BE ABANDONED, THEIR SCOPE FOR MEETING PRESENT PROBLEMS IS LIMITED.

(II) INDEXATION. INDEXATION IS REJECTED AS A MAJOR

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DEVICE IN COMMODITY AGREEMENTS SINCE IT IS INFLEXIBLE, INFLATIONARY, AND NOT APPROPRIATE TO A MARKET ECONOMY. HOWEVER, INDEXATION MIGHT WORK AS A SHORT-TERM DEVICE FOR ADJUSTING PRICE RANGES BETWEEN FORMAL REVIEWS BY THE APPROPRIATE GOVERNING BODY OF A COMMODITY AGREEMENT.

(III) EARNINGS STABILIZATION IS A NOTION WHICH WOULD SEEM TO OFFER THE GREATEST FLEXIBILITY FOR THE PRESENT SITUATION. IT WOULD AVOID THE PROBLEMS INHERENT IN PRICE STABILIZATION SCHEMES (WHICH REWARD SOME LDC PRODUCERS WHILE PENALIZING OTHER LDC CONSUMERS), CAN BE DIRECTED TOWARD PARTICULARLY NEEDY COUNTRIES AND CAN MEET TEMPORARY DISLOCATIONS. EARNINGS STABILIZATION FINANCING SHOULD BE FLEXIBLE, RANGING FROM CONCESSIONAL TO COMMERCIAL TERMS, DEPENDING ON NEED. MAITLAND REFERRED TO THE LOME CONVENTION AS A PRECEDENT FOR EARNINGS STABILIZATION AS AN AID MECHANISM, BUT SAID UK THINKING ON DETAILS OF A BROADER SCHEME HAVE NOT YET BEEN DEVELOPED.

5. AS REGARDS SPECIAL SESSION, MAITLAND COMMENTED THAT UK IS ANXIOUS TO REDUCE CONFRONTATIONAL ATMOSPHERE THAT IS CREATED BY REPEATED APPROACHES TO WHOLE SERIES OF CONFRONTATIONAL SUBJECTS ON WHICH LDCS INSIST. THEY THINK THREE TIER APPROACH COULD BE MORE REALISTIC IN FOCUSING EFFORTS ON PROBLEMS ON WHICH PROGRESS CAN BE MADE AND LEAVING OTHERS FOR LATER; AT MINIMUM, SINCERE EFFORT TO SORT OUT PROBLEMS IN THIS SENSE WOULD PUT DEVELOPED COUNTRIES IN BETTER LIGHT AND COULD REDUCE PRESENT TENSION.

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